APPLIED DNA SCIENCES – FQ3'17 EARNINGS CONFERENCE CALL (8/10/17) – MANAGEMENT'S PREPARED REMARKS

Forward-Looking Statements

The statements made by APDN in this document may be "forward-looking" in nature within the meaning of the Private Securities Litigation Act of 1995. Forward-looking statements describe APDN's future plans, projections, strategies and expectations, and are based on assumptions and involve a number of risks and uncertainties, many of which are beyond the control of APDN. Actual results could differ materially from those projected due to our short operating history, limited financial resources, limited market acceptance, market competition and various other factors detailed from time to time in APDN's SEC reports and filings, including our Annual Report on Form 10-K filed on December 6, 2016, and our quarterly reports on Form 10-Q filed on February 9, 2017, May 11, 2017, and August 10, 2017, which are or will be available at www.sec.gov. APDN undertakes no obligation to update publicly any forward-looking statements to reflect new information, events or circumstances after the date hereof to reflect the occurrence of unanticipated events, unless otherwise required by law.

Beth Jantzen, chief financial officer, CPA

Thank you, Clay. Good afternoon everyone and thank you for joining us today.

Let me take a few minutes to discuss the results for our third fiscal quarter and first nine months of fiscal 2017, and then, Dr. James Hayward, our President and CEO will provide an update to you on the company's progress, activities and strategies.

Summary of Quarterly Financial Results

Starting with the statement of operations, total revenues for the quarter were $1.8 million. This represents a 175% increase compared to $653 thousand reported in the third quarter of fiscal 2016, and approximately a doubling of our fiscal second quarter 2017 revenues of $905 thousand.

For the first nine months of this fiscal year, we recorded revenues of $3.6 million, an increase of approximately $1.1 million or 41% compared to revenues of $2.6 million for first nine months of the prior fiscal year.

Product revenues increased five-fold for the third fiscal quarter of 2017 compared to the same quarter of 2016, and 147% for the first nine months of fiscal 2017 as compared to the same period in the prior year. The increase was driven primarily by the fulfillment of an initial order with Himatsingka for the upcoming ginning season which represented gross revenue of $1.2 million. As you may have seen in our previous press release on June 23rd that we entered into a new licensing agreement with Himatsingka. This new agreement among other things provides for 60 day payment terms as well as a greater gross margin than similar sales under our previous arrangement for the sale of DNA concentrate to mark cotton.

We continue to build our recurring revenue stream in the textile industry with this arrangement as well as with the signing of several long-term agreements with non-cotton textile manufacturers, specifically GHCL and Loftex. These contracts add on to the five-year supply agreement for bulk DNA manufacturing with a leading chemicals company that was signed this quarter and is expected to generate revenues of approximately $500 thousand annually beginning in fiscal 2018.

Service revenues decreased 15% and 48% during the three and nine month periods ending June 30, 2017 compared to the same periods in fiscal 2016, mainly due to the conclusion of the two government contract awards last fiscal year that expired during July and August 2016. During Q3 of fiscal 2017, we received a new government contract award for a total of $1.5 million that will be recognized over a two-year period. Revenues from this new contract were $62 thousand for the quarter ended June 30, 2017. The decrease in service revenue was offset by increased revenue from development projects, which Jim will provide more detail on a little later. Cost of revenue as a percentage of product revenue decreased for the three months ended June 30, 2017 from 61% to 16% due to higher sales in the textile industry which have higher margins. Also, during Q3 2017, due to higher product revenue, our production increased, and as a result, our fixed production costs, allocated to our production facilities, were absorbed at a higher rate by product sales as compared to the same period in the prior fiscal year.

Total operating expenses were $4.2 million for the quarter ended June 30, 2017, an increase of $273 thousand, or 7%, from $3.9 million for the same period in the prior fiscal year. This increase is primarily attributable to an increase in bad debt expense of approximately $265,000 as a result of the write off of a portion of our accounts receivable.

For the first nine months of fiscal 2017, total operating expenses increased 10% compared to the same period in the prior fiscal year from $11.6 million to $12.8 million. This increase reflects higher stock based compensation expense of $1.2 million and an increase in bad debt expense of approximately $265 thousand, which are both non-cash expenses. These increases were offset by decreases in professional fees, franchise taxes and research and development expenses.

Net loss for the third fiscal quarter of 2017 was $2.6 million compared with a net loss of $3.4 million for the same period in the prior fiscal year, an improvement of 22%.

For the third fiscal quarter of 2017, adjusted EBITDA was a negative $1.5 million, compared to a negative $2.6 million for the same quarter last fiscal year and a negative $2.7 million in the second quarter of fiscal 2017. Year over year, EBITDA improved by $900 thousand to a negative $6.6 million from a negative $7.6 million in the prior period. The improvement for the fiscal 2017 periods primarily reflects the increase in revenues.

Turning to the balance sheet, cash and cash equivalents totaled $2.4 million at June 30, 2017, compared with $4.0 million at March 31, 2017. The decreased cash balance is primarily a result of cash used to fund operations.

On June 28th we entered into subscription agreements for an at the market private placement of our common stock with a group of investors. This group of investors included a key customer of ours as well as all of our executive officers and the entire Board of Directors. As a result of the private placement, we agreed to issue just over 1 million (1,025,574) shares of common stock at a price of $1.76 per share for total gross proceeds of

$1.80 million, or total net proceeds of approximately $1.77 million. No discounts or warrants were given to the investors. Also, the issuance of the common stock is exempt from registration requirement and is therefore restricted for six months. We have received proceeds of $805 thousand through the filing of the 10-Q and have agreed to extend the payment term of $1 million with respect to one investor for an additional 30 days to August 28, 2017.

As of June 30, 2017 we had an accounts receivable balance due from Dreyfus related to the former MOU of approximately $2.78 million and tagging fees payable to Himatsingka of $595 thousand. Subsequent to the close of the quarter, we received proceeds with respect of the accounts receivable balance of $1.29 million, net of Himatsingka's portion of the tagging fee. As of June 30, 2017 there was approximately $560 thousand of deferred revenue remaining from our prior cotton contracts.

As of June 30, 2017, excluding cash receipts from financing, our average monthly cash burn rate for fiscal 2017 was approximately $750 thousand, compared to approximately $895 thousand for the same period in the prior fiscal year. The decreased burn rate for fiscal 2017 compared to fiscal 2016 is due to improved cash collections as well as a decrease in expenditures.

As of July 31, our cash position is approximately $2.1 million, which as noted above does not include all proceeds from the private placement of which $1.1 was not collected as of 7/31, or the payment received from Dreyfus of approximately $1.29 million.

We continue to closely monitor our spending, and intend to remain disciplined and continue to strategically manage costs in line with our current and near future market opportunities.

As of June 30, 2017, we estimate that our cash and cash equivalents along with the collection of our current receivables and the proceeds from the private placement are sufficient to fund operations for the next twelve months.

Thank you for joining us today and I would now like to turn it over to Jim for his comments.

Dr. James Hayward, president and CEO

Thank you, Beth, and good afternoon everyone. I am pleased to speak to you today following Beth's report of improved third quarter results. Beth emphasized a number of performance parameters worth exploring because I believe they signify our approach to inflection:

- Firstly, a five-fold increase in product revenues quarter over quarter. We are selling more;
- Secondly, our relative costs of revenue decreased well before our fixed costs have been fully absorbed by breaking even. These healthy gross margins are a result of our sales trending toward a product mix which

requires high quantities of DNA, our most profitable product line. This leverage means that once our fixed costs are fully absorbed, we should report quite profitably as a percentage of our revenue;

- And thirdly, our recurring revenues are increasing. At the beginning of this fiscal year, recurring revenue was about $250,000 per quarter; the rest of our quarterly revenue came from new sales achieved only during that quarter. By Q3, however, recurring revenues were at a run-rate of over $1 million per quarter and we expect that number to rise by nearly 50% during fiscal 2018, of course influenced on a quarter-to-quarter basis by the seasonality of cotton DNA sales. If we hold our expenses where they are today, and maintain the gross margin mix from our currents sales in products and services, we would become cashflow positive with incremental sales per quarter of only $1.7 to $2.0 million. That is total quarterly sales of $3.2 to $3.5 million.

As Beth noted moments ago, our revenue performance in the quarter was driven principally by cotton revenues. As we approach the start of the 2017/2018 ginning season, we believe that the broader base of business we have built since last year's ginning season will make itself evident in our results over the next several quarters. We believe that our successes today will be the foundation for our sustained growth tomorrow.

Interest has steadily expanded in our DNA technology platform. Our initial successes came in the Government/Military vertical where many emerging technologies get their start, and, subsequently, in security and then textiles, specifically cotton. While the military wanted us because we were uncopiable, unbreakable, bulletproof, for a non-commercial application, the cotton supply chain needed us for commerce. They need us to protect them from counterfeits and from cheating when the inclusion of low-end cotton in high-end products appears on their store shelves and poses a threat to their brands.

We initially directed the value proposition of our DNA technology platform towards the top of the supply chain, leaving the brands and the retailers to pull our value proposition to the consumer.

Brands and retailers want certainty that the products on their shelves are true to the label. The increasingly frequent instances of counterfeit or sub-standard products making it onto store shelves, and the resultant, and potentially costly, consumer and legal backlash, are compelling brands and retailers to employ strategies and technologies to ensure brand protection. In fact, they are also committing themselves to sustainability goals by 2020 that are integrated across their policies, processes and products, and driving further demand for the means to ensure label compliance and consumer assurance.

Manufacturers and other supply chain participants that deploy strategies and technologies to ensure their customers' brand protection have a competitive advantage in the marketplace. With our success in purifying the supply chain for our first two major retailers, manufacturers are starting to view our molecular tag technology as strategic to their business goals. They increasingly see Applied DNA as a means of keeping their current business and winning new business.

As a consequence of our success, our value proposition has expanded to demonstrate benefits to the brand and retailer and manufacturer alike. By showing value in bringing certainty to a $100 cotton shirt and not only the cotton fiber, this incentivizes brands and retailers to "pull" our technology platform through their supply chain.

Himatsingka is the first manufacturer to capitalize on the disruptive nature of our technology platform to their economic benefit. On April 28, we announced the debut of our SigNature® T molecular tag in Bed Bath & Beyond's Wamsutta line of bed linens featuring PimaCott. Himatsingka is the manufacturer of this line. Product and customer reviews of this line demonstrate that AUTHENTICITY IS GOOD FOR BUSINESS. Today, walk into most Bed, Bath and Beyond stores and you will also see PimaCott towels for sale.

On June 23 we entered into a new licensing agreement with Himatsingka. From a business perspective, the benefits of this agreement to us are many:

- First, we secured a 25-year commitment from Himatsingka, mirroring the commitments they made to shared customers. PimaCott, Homegrown and all other tagged cottons products from Himatsingka are now exclusively powered by Applied DNA platforms for the next 25 years;

- Second, and reflective of our greater standing in the textile industry today, we secured licensing revenue on non-home textile products. As part of the agreement, Himatsingka is solely responsible for promoting, marketing and selling tagged cotton globally, with our full support. Therefore, their success is our success;
- Third, payment terms under the agreement will considerably improve our working capital-to-cash cycle, reducing prior cotton collection from 12 to 18 months to 60 days;
- Fourth, we are no longer required to revenue-share to Himatsingka. This means an immediate 20-25% increase on our profit from molecular tags.
- Fifth, the agreement incentivizes Himatsingka to accelerate penetration of our platform into the apparel market where HomeGrown, our shared upland DNA-tagged cotton brand, is already receiving warm reception from major brands and retailers. U.S. upland cotton growers yield about 7 billion pounds annually and count the apparel industry as their biggest users.
- And finally, sixth, we anticipate opening our Forensic laboratory in India early in calendar year 2018 to service our growing business in that part of the world. As we grow, we will use this base and others to appropriately scale our partnerships and resources for managing and ensuring compliance in our new supply chain partnerships.

You will agree that this is quite an evolution for a company that tagged five million pounds of cotton just three years ago.

The complexity of the cotton supply chain is such that if we could eliminate cheating in cotton, we could purify virtually any supply chain. Our go-to-market strategy for non-cotton textiles mirrors our cotton strategy, and in this area we executed to considerable effect in the third quarter.

Recall that in the second quarter we launched CertainT™, our program that integrates our commercial platforms into a licensable strategy to generate royalty fees. We believe that the CertainT Trademark, a public-facing, visible mark to consumers, will come to signify originality, performance and sustainability, akin to 'Intel Inside'. In fact, we received a trademark registration for 'Certainty is Only a Molecule Away' just last week. The first CertainT-branded recycled PET towels are scheduled to arrive on US retail shelves before the end of the calendar year.

In July we signed a license agreement with Loftex Home, a well-respected manufacturer of high-quality towels and home textiles to verify the authenticity and origin of recycled PET used in bath and beach towels. The response from retailers to the Loftex initial launch of a product line with CertainT announced in March exceeded their expectations and accelerated their expanded use of recycled PET verified by our CertainT platform. The new multi-year agreement is exclusive for bath and beach towels in the United States, non-exclusive for plush throws and bath rugs and provides for long-term minimum annual revenues as well as trademark licensing royalties to us.

Further, we signed a multi-year license agreement with GHCL, a global manufacturer of bed linens based in India. The agreement provides CertainT platform services in connection with source-verified, PET and recycled PET in select home textile products sold in-store or online in the United States. GHCL has also licensed Applied DNA's CertainT trademark for use on its products, as well as for promotional, marketing and sales materials. The agreement provides for minimum annual revenues as well as trademark licensing royalties to us.

CertainT is today a cornerstone of our go-to-market strategy and a key component to building a diverse, recurring revenue base. With CertainT, we can participate not only at the front-end of the supply chain with the application of our molecular tags, but at the back-end of the value chain where the cumulative value-add is the highest and we can share in the economics with brands and retailers.

In our Government/Military vertical, we announced in June that we were the recipient of a two-year, approximately $1.5 million contract that expands our current platforms to improve DoD [Department of Defense] counterfeit risk mitigation. This new award was granted via a Rapid Innovation Fund that provides the Defense Logistics Agency with innovative technologies that can be rapidly inserted into acquisition programs to meet specific defense needs. I draw your attention to the fact that this was a competitive bid contract for which our technology platform was pitted against other technologies and methodologies.

This morning, we announced the start of production-scale tagging of bearings with a major US manufacturer. This relationship is the product of our efforts to commercialize processes and methodologies developed under our first Rapid Innovation Fund Contract of the Defense Logistics Agency and demonstrates the remarkable effectiveness of these awards. While our second contract is just now in place, we are still commercializing projects that were funded via our prior contract and expect to announce successful commercialization with partners who collaborated in that contract.

In our pharmaceutical vertical we continue to progress pilots with our anticipated partners, while we have prepared our facilities and staff to operate under FDA guidelines. We are working with our future partners on the content of our Drug Master File and we expect to file this with the FDA in the next several months.

As we move past the early adopter stage within our key verticals and take on a more strategic role, this is being reflected in our pipeline. In Q2 we serviced 9 new pre-commercial relationships that grew to 14 in Q3.

As a testament to the value of our accrued, field-proven experience, in Q4 thus far we have already announced 2 new customers that progressed directly to multi-year supply agreements without any pause for feasibility. Just last week, we met a new prospect on Wednesday, submitted a pre-commercial proposal on Thursday, and signed the funding documents for a pre-commercial pilot by Monday – 4 days from first handshake to funded collaboration. Overall, and as I have cited before, we continue to see a shortening of our sales cycle, both on average and in verticals in which our experience is broader.

Earlier this summer we announced that we had completed initial work on a pilot project with Lily of the Desert, a leading US-based producer of *Aloe vera* products, which touches upon multiple markets, from food and supplements to pharmaceuticals and personal care. The second phase of our work is nearly completed and we have begun planning commercialization at full scale.

Earlier this week, we announced the completion of a pilot project for the large-scale molecular tagging of fertilizer that was successfully tracked through the West African supply chain of Borealis partner, Rosier. This pilot was part of our program to bring sustainability to large commercial ecosystems and was intended to stop the adulteration, substitution and diversion of fertilizers that was resulting in low crop yields and economic hardships for both farmers and local banks that financed the farmers' purchase of the diluted fertilizer. I am pleased to report that we were successful across all facets of the pilot and restored faith in the commerce of fertilizer to all parties. We expect to initiate initial shipments in early calendar 2018.

Let me share a few thoughts on our private placement. Over the past several years we have been building the market for our technology platform and, with recent successes elevating our reputation in the marketplace, we have been aggressively pursuing an expansion of our pipeline of opportunities that will form the basis of our future growth. Reflective of our hard work and confidence in our strategy, I am very proud to have every executive officer and every Board member join me in participating in this private raise. Most telling perhaps is the industry validation derived from having a key customer as the anchor investor. As we continue to build our business, our successes today will be the foundation for our sustained growth tomorrow.

I am also proud to welcome Elizabeth Schmalz Ferguson to our Board of Directors. Her addition aligns with our strategy to expand the application of our technologies within the Personal Care market, and we are already benefiting greatly from her expertise.

Thank you for your time and attention this afternoon. Operator, please open the call to questions.

END PREPARED REMARKS

Information about Non-GAAP Financial Measures

As used herein, "GAAP" refers to accounting principles generally accepted in the United States of America. To supplement our condensed consolidated financial statements prepared and presented in accordance with GAAP, this earnings release includes Adjusted EBITDA, which is a non-GAAP financial measure as defined in Rule 101 of Regulation G promulgated by the Securities and Exchange Commission. Generally, a non-

GAAP financial measure is a numerical measure of a company's historical or future performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use this non-GAAP financial measure for internal financial and operational decision making purposes and as a means to evaluate period-to-period comparisons of the performance and results of operations of our core business. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding the performance of our business by excluding non-cash expenses that may not be indicative of our recurring operating results. We believe this non-GAAP financial measure is useful to investors as it allows for greater transparency with respect to key metrics used by management in its financial and operational decision making.
"EBITDA"- is defined as earnings (loss) before interest expense, income tax expense and depreciation and amortization expense.
"Adjusted EBITDA"- is defined as EBITDA adjusted to exclude (i) stock-based compensation and (ii) other non-cash expenses.